

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

CIEP-01 COME-00 DODE-00 FEAE-00 FPC-01 H-02 INR-07

INT-05 L-03 NSAE-00 NSC-05 OMB-01 PM-03 USIA-06

SAM-01 OES-03 SP-02 SS-15 STR-04 TRSE-00 FRB-03 PA-01

PRS-01 /089 W

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R 021540Z JUL 75

FM AMEMBASSY QUITO

TO SECSTATE WASHDC 6187

INFO AMCONSUL GUAYAQUIL

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E.O. 11652: N/A

TAGS: EFIN, ENRG, EC

SUBJECT: PHOENIX SUIT AGAINST TEXACO-GULF

1. THE PHOENIX SUIT FOR \$1.1 BILLION AGAINST TEXACO-GULF HAS RECEIVED EXTENSIVE PRESS COVERAGE. ACCORDING TO LOCAL PRESS ACCOUNTS, PHOENIX IS SUING TEXACO-GULF FOR \$600 MILLION IN DAMAGES AND ANOTHER \$500 MILLION IN PUNITIVE DAMAGES. THE SUIT ALLEGES THAT "THERE WAS A CONSPIRACY THAT EFFECTIVELY DESTROYED PHOENIX'S PARTICIPATION IN ONE PERCENT OF GROSS ROYALTIES PRODUCED FROM 4 BILLION BARRELS OF ECUADOREAN RESERVES THAT ARE NOW PRODUCING MORE THAN 200,000 BARRELS PER DAY". AS QUOTED IN THE PRESS, THE SUIT CLAIMS THAT TEXACO-GULF OFFERED TO PAY THAT 2 PERCENT OF GROSS PRODUCTION AS A DIRECT TAX TO THE GOVERNMENT, SINCE THE PAYMENT IS DEDUCTIBLE FROM U.S. INCOME TAX.

2. GULF VICE-PRESIDENT JUAN CHACIN PUBLICLY CALLED THE PHOENIX SUIT ABSURD. TEXACO WOULD MAKE NO ANNOUNCEMENT SINCE IT HAD NOT BEEN OFFICIALLY NOTIFIED BY ITS HOME OFFICE.

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CHACIN ANNOUNCED THAT MINAS Y PETROLEOS, PHOENIX'S

PARENT COMPANY, RECEIVED A CONCESSION OF OVER FOUR MILLION HECTARES IN 1961. MINAS Y PETROLEOS TRANSFERRED 650,000 HECTARES OF THIS CONCESSION TO TEXACO-GULF IN 1965. THE REMAINING MINAS Y PETROLEOS CONCESSION WAS SUBSEQUENTLY CANCELLED BY THE GOE. TEXACO-GULF AGREED, TO PAY 2 PERCENT OF GROSS PRODUCTION TO NORSUL-PHOENIX FOR THIS CONCESSION, THE PRESENT SHUSUFINDI FIELD. WHEN THE GOVERNMENT DISCOVERED THIS ARRANGEMENT, IT IMPOSED A TAX OF 86 PERCENT ON THE NORSUL-PHOENIX PAYMENT. THE GOE INSISTED THAT 100 PERCENT OF TEXACO-GULF'S PAYMENT TO NORSUL-PHOENIX BE DEPOSITED WITH THE GOVERNMENT OF ECUADOR. OF THE REMAINING 14 PERCENT, CHACIN SAID, 7 PERCENT SHOULD BE "INVESTED IN THE COUNTRY" AND THE OTHER 7 PERCENT REMITTED TO NORSUL-PHOENIX. CHACIN ASSURED THE PRESS THAT TEXACO-GULF IS TURING OVER THE ENTIRE AMOUNT TO THE GOVERNMENT, BUT THAT HE DID NOT KNOW IF THE GOVERNMENT WAS REMITTING THE PAYMENT TO NORSUL-PHOENIX.

3. COMMENT: HIGHLY INFLATED RESERVE FIGURES AND PHOENIX'S CLAIM THAT TEXACO-GULF OWES \$1.1 BILLION (DOUBLE ECUADOR'S 1974 PETROLEUM REVENUES) CANNOT IMPROVE THE CONSORTIUM'S IMAGE IN ECUADOR. EMBASSY WOULD APPRECIATE FURTHER INFORMATION ON PENDING SUIT WHEN AVAILABLE.
BREWSTER

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LITIGATION, PETROLEUM CONCESSIONS, TRADE COMPLAINTS
Control Number: n/a
Copy: SINGLE
Draft Date: 02 JUL 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: GolinoFR
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975QUITO04747
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D750229-0848
From: QUITO
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750791/aaaaddtj.tel
Line Count: 85
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 2
Previous Channel Indicators: n/a
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: GolinoFR
Review Comment: n/a
Review Content Flags:
Review Date: 09 SEP 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <09 SEP 2003 by CunninFX>; APPROVED <12 NOV 2003 by GolinoFR>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
06 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PHOENIX SUIT AGAINST TEXACO-GULF
TAGS: EFIN, ENRG, EC, PHOENIX OIL CO, TEXACO-GULF
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 06 JUL 2006